

**INTERNAL CONTROL MATRIX FOR
AUDIT OF PURCHASING CONTROLS**

Version No. 4.0

July 2004

<u>Control Objectives</u>	<u>Control Activities</u>	<u>Audit Procedures</u>
<p>1. <u>CONTRACTOR COMPLIANCE, TRAINING, POLICIES, AND PROCEDURES</u></p> <p>The contractor performs internal audits or management reviews, conducts training, and has policies and procedures for the purchasing department to ensure the integrity of the purchasing system.</p>	<p>The contractor performs internal audits or management reviews of the purchasing department to be sure that:</p> <ul style="list-style-type: none"> • Employees are qualified. • Training is conducted. • Policies and procedures exist and are followed. 	<p>a. Determine whether any internal audits or management reviews of the Purchasing Department have been performed. Evaluate the results and note any deficiencies.</p> <p>b. Determine if any required follow-up actions were taken related to reported findings or recommendations, or why no actions were taken.</p> <p>c. Adjust the scope of audit based on the results of the internal audits or management reviews.</p>
	<p>The contractor has written procedures that encompass the purchasing operation.</p>	<p>d. Obtain the contractor's purchasing policies and procedures. Verify that they include the items set forth in control objectives 2 through 6 below.</p>
	<p>The contractor has a program for education and training of the purchasing personnel.</p>	<p>e. Obtain a list of training provided to purchasing personnel. Evaluate the training materials to verify that the training covers Government purchasing regulations and contractor procedures.</p>
<p>2. <u>PURCHASE ORDERS AND SUBCONTRACT CLAUSES</u></p> <p>Purchase Orders and subcontracts should contain all flow down clauses, including those terms and conditions required by the prime contract, as</p>	<p>The contractor flows down to subcontracts the applicable clauses required by the prime contract.</p>	<p>Verify that the contractor ensures flow down of applicable prime contract terms and conditions in purchase orders and subcontracts (e.g., either</p>

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well as any clauses needed to carry out the requirements of the prime contract.		the Government or contractor has access to the subcontractor's/intercompany books and records for audit, that billings include only allowable costs) [see CAM 6-801.1c.)].
3. <u>MANAGEMENT OF PURCHASING</u> The contractor should organize and administer the purchasing department to ensure the effective and efficient procurement of required quality materials and parts at the most economical cost from responsible/reliable sources.	The purchasing files should contain appropriate information to support the vendor selected and the price paid.	a. Determine whether the purchasing department is organizationally independent in order to allow it to operate at maximum effectiveness and make objective decisions.
		b. Verify that the contractor requires the following purchasing file data to be maintained: <ul style="list-style-type: none"> • The purchase order • The purchase requisition • The request for quotation (RFQ) • Copies of the vendors' quotes • A bid tabulation sheet that summarizes and compares vendor quotations • Certificates for the rent-free use of Government facilities • Vendor surveys or facilities capability reports • Source selection explanation • Price or cost analysis data • Negotiation summary • Basis for selection of contract type • Copies of technical data • Price redetermination or termination data • Correspondence between the purchasing department and the bidders • Evidence of Small and Disadvantaged Business enterprise consideration

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		<ul style="list-style-type: none"> • Information concerning the use of special terms and conditions and approval thereof • Departmental and management approvals, if required • Administrative Contracting Officer notification and consent • Certificate of Current Cost or Pricing Data, if procurement meets the requirements
	In accordance with FAR, a make-or-buy program is to be established.	c. Verify that the contractor follows its make-or-buy program. Ensure that procedures are followed and decisions are documented.
	The contractor has a system to inform management of its performance.	d. Verify that the contractor has a system of reports and controls that reflect performance and provides the means through which the purchasing department reports its performance to company management.
4. <u>SELECTING SOURCES</u> The contractor should select the most responsive and responsible sources for furnishing required quality parts and materials and promoting competitive sourcing among dependable suppliers to obtain the most reasonable prices from sources that meet contractor quality requirements.	Purchasing promotes competitive sourcing to the maximum extent possible.	a. Evaluate the following as indication of the contractor's commitment to promote competition: <ul style="list-style-type: none"> • Reports to top management • Existence and usefulness of the historical records on parts and vendors • Extent of market survey efforts
	The contractor has a vendor performance rating system that evaluates price, quality, and delivery performance.	b. Verify the implementation of a current vendor performance rating system.
	Written justification is provided for single/sole source purchasing and split awards.	c. Selectively test procurement files to ensure compliance with FAR requirements related to competition.
5. <u>PRICING AND NEGOTIATION</u> The contractor ensures that some form of price or cost analysis is performed in connection with every purchasing action.	The contractor performs cost/price analysis and technical evaluation of its subcontractor's and supplier's proposals/quotations.	a. Determine if the purchasing file contains appropriate cost/price analysis and technical evaluation (see step 3.b.).

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	There is a system in place for seeking and taking advantage of purchase discounts.	b. Verify that the contractor has a system to negotiate and take advantage of quantity and prompt payment discounts. Selectively evaluate payments to determine that the system is working.
		c. Verify that guidelines are in place and being followed for determining that cost effective methods are used for processing the high volume of low dollar value orders and calls against blanket orders and open ended subcontracts. Include consideration of corporate wide purchase agreements, where appropriate.
<u>6. SUBCONTRACT AWARD AND ADMINISTRATION</u> The contractor ensures that proper types of subcontracts are selected and that there are controls, including oversight and surveillance, of subcontracted effort.	Contractor has guidelines for what types of subcontracts are awarded and under what circumstances.	a. Verify that guidelines are in place and being followed for determining the types of subcontracts awarded and under what circumstances.
		b. Determine that the contractor notifies the Government upon award of an auditable subcontract or intercompany order (see CAM 6-801.1b.).
		c. Verify that the contractor obtains annual incurred cost proposals for auditable subcontracts/intercompany orders, assures the proposals are audited, and incorporates the audit results into billings and proposals to the Government.
		d. Determine that the contractor adequately monitors financial and technical performance.